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Editorial

The Politics of Pragmatism: Southeast Asia's New Free Trade Bilateralism

Jürgen Rüländ

Bilateral and mini-lateral free trade projects (FTAs) have proliferated in the Asia-Pacific since the late 1990s. Between 1997 and 2004, their number increased from seven to seventy-two, with thirty-one concluded and the others at different stages of negotiation (Dent 2005:290). Political economists are still puzzled by this phenomenon. The questions they usually raise focus on two major issues: Does free trade bilateralism foster Southeast Asian and East Asian regionalism and to what extent are bilateral and mini-lateral FTAs compatible with a global multilateral trade order?

The views in the literature diverge largely on these two questions. Advocates of bilateral and mini-lateral FTAs view them as supplementary to the global trade regime. The same group of scholars also tends to regard free trade bilateralism as an engine of Southeast Asian economic integration with stimulating effects on Southeast Asian regionalism. Others, however, are more sceptical. They question the compatibility of bilateral FTAs with global trade liberalization under the auspices of the World Trade Organization (WTO) and they have reservations about their contribution to Southeast Asian community building. The three contributions assembled in this issue of *Südostasien aktuell* shed some light on these questions. They examine the motivations of Southeast Asian governments and their partners inside and outside the Southeast Asian region to negotiate bilateral FTAs, they assess the impact of bilateral FTAs on the cohesiveness of Southeast Asian regionalism, they scrutinize the relationship between bilateral FTAs and global trade multilateralism and they raise the question in what way bilateral trade liberalization can be combined with other global concerns such as sustainable development and environmental issues.

Southeast Asian regionalism and, in particular, its flagship, the Association of Southeast Asian Nations (ASEAN), have been severely tested by the Asian financial crisis. Viewed from hindsight, most pundits agree that ASEAN was virtually

paralyzed by the crisis (Acharya 1999; Funston 1999; Wesley 1999; Rüländ 2000). Its failure to contribute meaningfully to crisis management triggered acrimonious debates about the “ASEAN Way” as the embodiment the grouping’s norms of cooperation, the resurgence of bilateral disputes unimaginable before the crisis and relapses into unilateralist behaviour. Apart from calls to discard or at least dilute ASEAN’s quasi-sacred norm of non-intervention into the internal affairs of its members, exit behaviour weakened ASEAN’s fledgling regional economic integration under the auspices of the ASEAN Free Trade Area (AFTA) (Rüländ 2000). In his article, Christopher M. Dent mentions Malaysia’s decision to delay the reduction of tariffs on automotive product imports in the AFTA schedule by three years, from 2002 to 2005. Indonesia and the Philippines unilaterally delayed AFTA liberalization of their respective petrochemical industries and the frequency of complaints over new non-tariff trade barriers by AFTA members increased markedly.

Yet, for many observers ASEAN recovered quickly from the crisis as evidenced by the flurry of new regional cooperation initiatives launched by ASEAN or individual ASEAN members. Among them are ASEAN Plus Three (APT), the West Pacific Forum, the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC), the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), P-3,¹ P-5,² the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), the Chiang Mai Initiative and recently, in December 2005, the East Asian Summit. Intraregional initiatives such as ASEAN’s Bali Concord II, which envisaged the creation of an ASEAN economic, security and cultural community, the ASEAN Investment Area (AIA), the Initiative for ASEAN Integration (IAI), moves to draft an ASEAN Charter and the proliferating negotiations for bilateral FTAs were likewise taken as evidence for the resilience of Southeast Asian regionalism. Proposals to form an Asian Monetary Fund (AMF), the Chiang Mai Initiative of bilateral currency swaps accords and academic debates about a common East Asian currency have inspired

¹ P-3 is the term for a mini-lateral free trade area that by 2005 also became known as Trans-Pacific Strategic Economic Partnership (SEP). Original members were Singapore, New Zealand and Chile, in 2005 Brunei Darussalam joined the grouping as the fourth member.

² A mini-lateral trade grouping consisting of Singapore, Chile, the U.S., New Zealand and Australia was proposed by Singapore after the APEC trade liberalization process came to a halt during the Asian financial crisis.

Heribert Dieter to speak of an emerging East Asian “monetary regionalism” (Dieter 2000; Dieter/Higgott 2006) which skips earlier stages of economic integration. Christopher M. Dent’s concept of a “lattice regionalism” also charts a non-conventional course towards regional economic integration (Dent 2003). It rests on the expectation that bilateral and mini-lateral FTAs intensify economic interactions and create new interdependencies, a key requisite for closer regional cooperation.

In his contribution to this issue of *Südostasien aktuell*, with the benefit of years of intense empirical research (Dent 2005, 2006), Dent is more circumspect about the impact of bilateral FTAs on (Southeast) Asian regionalism than in his early writings on the theme. Trade bilateralism, that is his sobering conclusion, is exacerbating the developmental divide in Southeast Asia. Bilateral FTAs, especially with developed economies such as the United States or Japan, tend to reproduce and even deepen pre-existing economic asymmetries. Thus, in Southeast Asia only Singapore and Malaysia may fully exploit the improved market access for their exports and attract sizeable foreign direct investment. The other economies of the region, especially those of ASEAN’s new mainland members, are struggling with serious technological, industrial and institutional capacity deficits. Their trade officials lack the technical expertise needed to secure beneficial deals and their bureaucracies are ill equipped to comply with the increasingly complex and technically complicated trade regulations. While bilateral FTAs produce exorbitant governance costs (i.e. costs to establish and strengthen institutions) for Southeast Asia’s economically less advanced countries, WTO Plus regulations imposed on them may even dim their developmental perspectives. Dent cites the example of Thailand’s infant e-banking sector which the American government demands to be opened to the vastly superior U.S. banking industry. Moreover, by opting for the bilateral approach, ASEAN countries deprive themselves of an important negotiating advantage: Without a common strategy they are played off against each other by economically more powerful partners and have no chance to benefit collectively from concessions through most favoured nation (MFN) treatment. Worse even, one may argue, competitive deals erode the trust and social capital among ASEAN member states built up over many years through the “ASEAN Way.” As a result, ASEAN’s actorness is suffering, making it more difficult for the grouping to speak with one voice and act collectively in global or interregional multilateral forums such as the WTO, the Asia-Pacific Economic Cooperation (APEC) or the Asia-Europe

Meeting (ASEM). Dent thus concludes that regional level trade liberalization schemes such as AFTA are more conducive to regional integration. They are more inclusive and more equitable, especially if they are combined with development aid for the peripheral regions.

The second major issue concerns the question whether bilateral FTAs are building or stumbling blocks for global trade multilateralism. Many Southeast Asian government officials, but scholars as well, value them as “second best” option in the face of a deepening crisis of global trade multilateralism. For Barry Desker, director of the renowned Singaporean S. Rajaratnam School of International Studies (formerly Institute of Development and Strategic Studies, IDSS), bilateral FTAs stand for the “politically attainable” in “adverse circumstances” (Desker 2004:4). All three contributors to this issue thus agree that the failed WTO ministerials of Seattle (1999) and Cancun (2003) and the slow pace of regional trade liberalization have been major motivations for the Singaporean and the Thai governments to spearhead Asian trade bilateralism and other Southeast Asian governments to join the bandwagon.

Those in favour of free trade bilateralism also contend that bilateral agreements socialize states in “hard law” (i.e. regulations that are binding, precise and enforceable) (Abbott/Snidal (2000) and thus strengthen rule-based multilateralism. Stephen Hoadley, in his contribution on America’s FTA strategy for Asia, seems to concur with this view. After all, free-riding is more difficult in bilateral relationships than in multilateral settings (except, of course, where one of the partners is a hegemonic power). Bilateral free trade areas also maintain the fiction of free trade at a time when it is jeopardized by stagnating global trade negotiations. By creating “WTO-Plus” arrangements they have the potential to revitalize or even advance the global trade agenda.

Critics, however, emphasize that bilateral FTAs generate many contradictory rules as protagonists negotiate special arrangements for each FTA. FTAs differ in scope of liberalization, rules of origin, “broad band” elements and implementation schedules (Dent 2005:297f.). In fact, “each FTA is unique,” as Dent stresses in his article. There is no template on which FTAs can be built. The technical variation and the complexity of these rules severely reduce transparency, enhance transaction costs and explain why multilateralizing bilateral agreements – as called for by Okamoto – faces many obstacles (Okamoto 2003). The diversity of rules has discriminating effects and is at variance with multilateralism defined as an institutional form which coordinates relations among three or more states

based on expectations of diffuse reciprocity (Ruggie 1992:571).

The diversity of bilateral FTAs and the difficulties of “harmonizing and rationalizing” them into multilateral agreements (Dent 2005:312) must also be attributed to varying geo-political and strategic interests motivating governments to conclude bilateral FTAs. Stephen Hoadley shows in his contribution how the U.S. used bilateral FTAs to reward friendly governments and to back up security cooperation with Asian partners in the war against terror. Hoadley however denies that American free trade bilateralism in Southeast Asia, as reflected in the Bush administration’s Enterprise for ASEAN Initiative (EAI), the U.S.-Singapore FTA and ongoing negotiations with Thailand and Malaysia, is a device to establish U.S. hegemony in the region. Yet, apart from the economic interests pursued by bilateral FTAs, it can hardly be denied that they constitute an avenue for increasing Washington’s political influence in Southeast Asia. Not surprisingly, thus, China and Japan have also discovered trade bilateralism as a utility in their competition over influence in the Southeast Asian region. Bilateral trade deals may thus be viewed as a strategy for neo-mercantilist balancing games within the region and between major regional and extra-regional great powers. For Jagdish Bhagwati, citing U.S. Trade Representative Robert Zoellick, trade bilateralism is the economic equivalent of the ad hoc “coalition of the willing” in the security domain (Bhagwati 2004:53). Hoadley is thus right when he states that “state leaders are indifferent as to the absolute merits of international trade regimes, regional organizations, bilateral deals, or unilateral initiatives, but rather choose pragmatically among them to maximize relative economic and security gains.” In fact, free trade bilateralism tallies well with the penchant for pragmatic *realpolitik* dominant among Southeast Asian foreign policymaking elites.

Astrid Fritz-Carrapatoso’s article adds another facet to the debate on the compatibility of bilateral FTAs with multilateralism. Her study traces the enormous difficulties of linking trade with other global concerns such as sustainable development and protection of the environment. Environmental clauses in trade agreements are usually promoted by developed countries, while economically less advanced countries suspect them as “green protectionism.” Behind-the-border changes as required by environmental clauses are also at variance with the “ASEAN Way” and its strong emphasis on national sovereignty. Yet, despite their institutional and technical capacity deficits, which pose great obstacles for them to comply with environmental commitments, Southeast Asian governments are under certain conditions willing to accept non-binding (and in the case of the

Trans-Pacific SEP even binding, albeit non-enforceable) environmental clauses in trade agreements. This is the case when the partners are smaller countries like New Zealand or Chile, or when the economic benefits of the deal promise to exceed the costs of environmental commitments. While civil society pressure for sustainable development is still weak in Southeast Asian countries, it is much stronger in developed and, here, in particular, Western countries. It remains however to be seen as to what extent the inclusion of non-binding environmental clauses is sufficient to create peer pressure and to foster norm internalization among Southeast Asian governments and publics.

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